

City of Detroit


CITY COUNCIL

IRVIN CORLEY, JR.
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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: December 9, 2008

RE: Resolution Approving an Obsolete Property Rehabilitation
Exemption for 1556 Woodward Project (**Recommend Approval**)
Line Item 75 on Today's Formal Session

Resolution Approving a Commercial Rehabilitation Exemption
Certificate for 10 Witherell Project (**Recommend Approval**) ***Line***
Item 76 on Today's Formal Session

The above referenced resolutions were voted out of the Planning and Economic Development Standing Committee last Wednesday for today's formal. At the time, I did not have the financials from the developers to determine the need for 12-year obsolete property tax abatements. I received numbers yesterday afternoon, and I report the following.

Project Description

The 1556 Woodward property in conjunction with the adjacent Broderick Tower Building (10 Witherell) would be renovated into a mixed-use loft community. The first two floors, and possibly the basement, comprise a restaurant and potential entertainment space. Floors three through five will be office space, and floors six through thirty-four are to be modified from their original use into lavish loft-style apartments. The units will range from one to three bedrooms, and some will feature multi-level floor plans. The Assessors' Office deemed both properties functionally obsolete.

Total project cost is approximately \$51 million for the combined 1556 Woodward/10 Witherell project. The project is expected to generate 100's of construction jobs and 60-100 new permanent restaurant and office jobs downtown Detroit. The project is also expected to bring 250-300 new permanent residents to the downtown area.

Project Financing and Cash Flows

The sources and uses statement (Attachment I) shows \$13.3 million in developer equity, or about 26% of the total project cost for the combined project, which is good.

The cash flow statements (located in my office) indicate negative cash flows without the obsolete property tax abatement. With the abatement, the project becomes economically feasible enough to meet debt service requirements and provide a developer's fee.

Recommendation

Based on the above analysis, I recommend that your Honorable Body approve 12-year obsolete property tax abatements for the 1556 Woodward and 10 Witherell projects.

Attachment

cc: Council Divisions
Auditor General's Office
Douglass Diggs, Planning and Development Department Director
Clinton Griffin, PDD-Development Specialist
Fred Beal, Developer
Joseph Harris, Chief Financial Officer
Pamela Scales, Budget Director
Arese Robinson, Mayor's Office

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Brode: Lower

Attachment I

SOURCES AND USES OF FUNDS - PROPERTY OWNER

| | Total | MBT Eligible Costs | Capitalize QREs | Capitalize non-QRE | Funded Expenses | Non- Amortize |
|--|----------------------|-----------------------|----------------------|-----------------------|--------------------|---------------------|
| BOA CDE "A" Loan | \$ 12,000,000 | | | | | |
| Conventional "B" Loan | \$ 6,000,000 | | | | | |
| BOA CDE "C" Loan | \$ 3,510,000 | | | | | |
| MT HTC Loan "D" | \$ 5,625,700 | | | | | |
| Deferred Development Fee - Managing Member | \$ 7,239,400 | | | | | |
| Lower Woodward Funds | \$ 3,000,000 | | | | | |
| Deferred Development Fee - Master Tenant | \$ - | | | | | |
| MM Capital Contribution | \$ 601,054 | | | | | |
| Building Income | \$ 375,000 | | | | | |
| State HTC & Brownfield Equity | \$ 7,273,744 | | | | | |
| MM Equity -Contributed Property | \$ 5,000,000 | | | | | |
| MT Convertible Debt Converted to Equity | \$ 100,000 | | | | | |
| Total Sources of Funds | \$ 50,724,898 | | | | | |
| Land | \$ 1,000,000 | | \$ - | | | \$ 1,000,000 |
| Building | \$ 4,000,000 | | | 4,000,000 | | |
| Building Excess Contributed Value | \$ - | | | | | |
| Site Work | \$ - | | | | | |
| Misc Pre-Construct Services | \$ 250,000 | | 250,000 | | | |
| Survey | \$ 6,500 | \$ 6,500 | 6,500 | | | |
| Architecture | \$ 1,060,000 | \$ 1,060,000 | 1,060,000 | | | |
| Special Façade Investigation | \$ 60,000 | \$ 60,000 | 60,000 | | | |
| Civil Engineering | \$ 65,500 | \$ 65,500 | 65,500 | | | |
| Investigative Demo & Cleanup | \$ 25,000 | \$ 25,000 | 25,000 | | | |
| Tax Credit Consulting | \$ 195,000 | | 195,000 | | | |
| Project Signage | \$ 15,000 | | | 15,000 | | |
| Security and board up | \$ 50,000 | | 50,000 | | | |
| Legal & Misc Finance | \$ 250,000 | | 75,000 | | 175,000 | |
| Accounting & Costs Cert | \$ 150,000 | | 150,000 | | | |
| Appraisal | \$ 15,000 | | 15,000 | | | |
| Market Study & Impact study | \$ 20,000 | | 20,000 | | | |
| Phase 1 Environmental | \$ 7,500 | | 7,500 | | | |
| Phase 2 Environmental | \$ 23,500 | | 23,500 | | | |
| Bank Financing Fees | \$ 320,000 | | 64,000 | 256,000 | | |
| Other Misc Costs | \$ 50,000 | | 50,000 | | | |
| Broderick Construction Costs | \$ 29,250,000 | \$ 29,250,000 | 29,250,000 | | | |
| Building & Misc Permits | \$ - | | | | | |
| Construction Contingency | \$ 2,925,000 | \$ 2,925,000 | 2,925,000 | | | |
| DTE/City Power/STB Fees | \$ 200,000 | | 100,000 | 100,000 | | |
| Builders Risk & Insurance | \$ 100,000 | | 100,000 | | | |
| Construction Finance Costs | \$ 2,600,000 | | 2,600,000 | | | |
| Utilities | \$ 85,000 | | 85,000 | | | |
| Property Taxes | \$ 175,000 | | 175,000 | | | |
| Building Insurance | \$ 75,000 | | 75,000 | | | |
| Maintenance & Misc | \$ 20,000 | | 20,000 | | | |
| Repayment of DIF Loan | \$ 68,426 | | | | 68,426 | |
| Building Ops Contingency | \$ 174,073 | | | 174,073 | | |
| Marketing | MT \$ - | | | | | |
| Furnishings | MT \$ - | | | | | |
| Leasing Fees | MT \$ - | | | | | |
| Operating Reserve | MT \$ - | | | | | |
| Buyout Reserve | \$ - | | | | | |
| Total Developer Fee | \$ 7,489,400 | | 7,489,400 | | | |
| Total Development Costs | \$ 50,724,898 | \$ 33,392,000 | \$ 44,936,400 | \$ 4,545,073 | \$ 243,426 | \$ 1,000,000 |